

# *The* MANAGEMENT REVIEW

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By JOSEPH H. BARBER.

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# *The* MANAGEMENT REVIEW

August, 1931

## A Decalogue of Modern Marketing <sup>1</sup>

By JOSEPH H. BARBER, *Assistant to President,*  
*Walworth Company*

IN BIOLOGY we learn that an organism must adapt itself to its environment. So must the business man be acutely conscious of his surroundings and choose his objectives definitely and wisely. He must sense the assortment and relative importance of the economic elements affecting his business. He must so direct his own activities that they will aid in maintaining an economic balance of the various departments of his business, the one with the other, and of his business with external economic conditions.

This interweaving of economic factors presents a network of relations. They appear complex. But the kernel of business is still simply buying and selling—the old-time relationship of trading. New complexities may obscure but cannot obliterate the fundamentals.

It behooves us to examine without prejudice, then, the present-day economics of buying and selling so as to assure a profit remainder. The philosophy of buying and selling may be expressed in ten maxims as follows:

### A DECALOGUE OF MODERN MARKETING

1. Forget not the nature of trading.
2. Beware of profitless prosperity.
3. Admit the customer is always right.
4. Assume the vendor has only a "veto."
5. Invest time, space and effort proportionately.
6. Cut off the end items.
7. Fish where the fish bite.
8. Let ruts help, not hinder.
9. Keep yourself "in line."
10. Search out the lazy dollars.

<sup>1</sup> This is the second part of a paper given at a meeting of the Industrial Marketing Executives of New York. For the first section see July issue of *The Management Review*.

These are simple maxims and sermonistic in spots; but, until we approach toward their practical application, we shall not be in touch with the fullest progress of modern business. Many have contributed the experiences and ideas that are expressed concisely here. Full credit is due them for their several contributions. But it is our hope that in this decalogue even they may find a fuller light cast about their own bits of wisdom.

### 1. Forget Not the Nature of Trading

What with combinations, integrations, holding companies and far-flung subsidiaries, the mechanisms of modern business are the most complex ever developed by the human mind. Yet it is all simple enough in essence. When we search out the fundamentals, we quickly realize that now, as always, business rests upon the foundation of a good old-fashioned "trade" between a buyer and a seller.

In the rush of many matters, how quickly we forget the personal nature of the invoice. Each little bill that comes in is really a most significant, pertinent record of a good, old-fashioned "trade", or sale. That invoice record tells us that the sale is (1) from a particular source of supply, (2) to a particular customer, (3) in a particular place, (4) at a particular time, (5) of a bill of assorted goods. The invoice itemizes that bill of goods as to (a) quantity, (b) price, and (c) value. All these elements are separate and distinct economic factors and they weave as continuous threads throughout the fabric of business.

The early philosophy of a "trade" grew out of the instinct to buy low and sell high. Profits were then dependent upon shrewd speculation. But little by little facts came to light to show that speculative profits were largely "paper profits"; that price changes were often two faced, with no permanent advantage either way, since the gains of two or three months could be entirely lost in a single month. It became more and more evident that the one who aimed to furnish his customers a real service, and who performed that service steadily and with increasing efficiency, made more money on his "operation" than he did on all his shrewd buying.

Such is the aim of modern merchandising. Proof is not wanting to justify a policy of steady operation with increasing efficiencies based on research. A recent survey by the Central Supply Association, conducted through the Bureau of Business Research of Harvard University, showed clearly that largest profits had been made by the jobbers who tended to merchandising service and got the best stock turnovers; and they got these better profits in spite of narrower profit margins. They got them by their efficiency in getting expenses into line with lower selling prices, and not by waiting for a speculative price rise to make a wider gross margin.

They improved their position by concentrating their effort on the valuable customers and in the compact territories they could serve best and most



economically. They added to their profits still further by weeding out unprofitable lines that could never warrant the expense of carrying them. Their merchandising service was needed; and the best profit rewards went to those who were the most efficient in performing the necessary service.

In the play of contending forces, there is evident a rational economics affecting the elements of trading—that is, of spending and getting. Just that:—spending first in the hope of getting a later return. The very foundation stone of success is intelligent investment in those quantities and in those places where a harvest can be reaped.

## **2. Beware of Profitless Prosperity**

For the most part, organizations have seemingly carried on with sublime confidence that they could sell their merchandise regardless of whether the market would be able to absorb it. That is unfortunate. For it is one thing to prepare manufacturing facilities for whatever demands may confront them, but it is quite another thing to attempt to run those facilities full when the demand cannot possibly absorb the output.

It should not have required a year like 1930, to prove that the manufacturers of a given industry cannot continue to produce in excess of demand, trying to flood wholesalers with merchandise in excess of their ability to resell. The manufacturer who brings about this condition, can only blame himself when profit changes into loss; and it is equally certain that the profits of the wholesalers, who are usually the innocent victims of this policy, will also be turned into losses. It is essential, then, that an industry's activities be directed toward the restraint of production to such a level of activity as the market can properly absorb.

True management does not concentrate on volume to the exclusion of profits. Instead, it determines where sales will be profitable, what services ought to be performed for the price and what demands should be satisfied. True management does not try to gait up together an ineffective sales policy to compensate for a defective production policy, thus trying to imitate Napoleon's glorious victory when he captured Moscow, but returned to Paris without his army.

## **3. Admit the Customer Is Always Right**

A great chain of restaurants, which was originally organized forty-one years ago with one store on Cortlandt Street, New York, and which now operates one hundred and fifteen restaurants, published the following in the Boston News Bureau a few months ago: "Up to a half dozen years ago, progress was considered satisfactory by stockholders. During the succeeding years, with more restaurants in operation, earnings showed a declining tendency, generally attributed mainly to new food policies. Meats practically were eliminated, many popular dishes abandoned, and caloric contents of

foods were printed opposite the articles on the menus. In March, 1929, the present management took over control. Meats and popular dishes were restored, and a vigorous advertising policy adopted. Sales then showed their first comparative increase for many months." They had simply learned that the customer is always right.

It is quite the proper thing now to "view with alarm" the increasing cost of distribution and the huge wastes incurred. The solution of the problem begins when we approach it from the customer's point of view, realizing that it is the consumer who should activate our policies, that it is his needs that should be our natural yardstick and the justification for our producing any item or line of product.

In the mass, Mr. Consumer is economically-minded and judges values shrewdly. He will spend as much as a nickel for a magazine of over 200 pages. One story or article will be worth that much. But for only a penny, customers will shift trade from one grocery store to buy their bread at another. The consumer has many calls for his money and in spending his dollars he is casting his votes for or against the products offered. You can't sell him what he doesn't first want. To get his votes, you must take sides with him. So here we come by our fourth maxim.

#### **4. Assume the Vendor Has Only a Veto**

If the consumer's dollars are votes, then dealers and jobbers do not really determine their own "buying". They have veto power only. One cannot say what his customers shall buy. One is simply free to choose for himself whether he shall, or shall not, sell certain classes of product to selected types of customers. Accordingly, the jobber becomes the procurement agent for his chosen group of consumers. As a procurement agent for them, he reaches out his hands only for the products that they want badly enough to pay a reasonable margin on. He wisely ignores or vetoes all other products.

So it comes about that the manufacturer, in turn, finds his real competition in the other lines of product that the jobber must sell and get his living out of. The average sale of the jobber is so small that he cannot constitute himself a specialist on just a single manufacturer's line. To the manufacturer, his single product calls for 100 per cent of his attention, but it is only 1/100th of the jobber's total interest in selling. And the jobber won't spend his time on any product if he cannot find his easiest profit in that way.

Consequently, starting from the point of view of consumption, we do well to ask: Who are the ultimate users of our product? What are their habits? What is the best method of distribution? In other words, how can we most intelligently meet their buying requirements?

The more modern approach puts a large burden squarely upon the shoulders of the manufacturer to make his product salable to the consumers he aims to serve. This he can do. His contriving engineers, his expert crafts-

men and his eagle-eyed inspectors can all write an invisible trademark into the product which the customer will instinctively recognize. Until the customer does accord such "recognition" to the product, the jobber will lack confidence in it and will withhold his best efforts from it. Nor will any product, having temporarily secured attention and introduction into the jobber's business family, continue to enjoy that favor unless it in turn, commands a profitable share of recognition by the user.

### 5. Invest Time, Space and Effort Proportionately

Time, space, and effort are all paid for by money. Consequently, the commercially-minded analyst views the allotment of time, space, and effort according to importance of demands and according to the chances for an equitable return in profits. As a result of this viewpoint, he searches for evidence that will show where time, space, and effort are *not* balanced properly and where too much of any of them is expended in directions, against obstacles or under conditions that are bound to wear profits thin.

For, the commercially-minded analyst knows there is a "law of concentration." It is more often the rule than the exception that one-fifth of the economic factors will be decisive enough to tip the scales one way or the other. For instance, the industrial census shows 20 per cent of all the establishments employ 88 per cent of the wage earners in industry and develop 92 per cent of the total product. A study of credit factor shows that 85 per cent of the manufacturing industries in the United States have poor credit ratings, while only 15 per cent have good ratings. Nevertheless, the 15 per cent that are "good" comprise 90 per cent of total business, and 80 per cent of that "good" business is in the places easiest to reach.

Analysis of typical markets has shown that a full half of possible sales volume is concentrated within the geographical area of five states; three-fourths of the potential market lies within ten of the forty-eight states; and it is a fact that for certain types of product twenty of the states, or nearly half of the forty-eight, may consume only 5 per cent of the total product. Moreover, there are some 120 specific, individual trading areas within the United States that consume nearly nine-tenths of the possible grand total consumption.

The general law of concentration is so well supported that we may well ask ourselves searchingly whether we are concentrating our efforts correspondingly. Clearly, executive attention should be balanced well against these relative importances. It should be directed toward the major factors and withdrawn from the end items if there is to be equilibrium such as will assure maximum profits. Nature will help man to solve his problems and attain his ends, so long as he has a definite purpose, knows what he's after and does the right thing at the right time and in the right way. It is useless to try to push water up a hill and it is just as unprofitable to oppose economic laws.

## 6. Cut Off the End Items

Here we would stress the current need for emphatic restatement of fundamentals concerning marginal customers, marginal territories, marginal activities and marginal information. The year 1930 forced us to call in question the well-nigh compelling urge toward increased volume, greater size and larger aggregations of corporate units. In the recent years just prior to 1930, there was little time to consider those customers, territories, products and practices that are at the fringe of industrial activities. We had been intensifying our sales effort and traveling many territories for the sake of getting an extra inch of sales volume, but we did little to find out whether or not the extra gross profit obtained covered the extra expense involved.

As relating to this important principle of marginal activities, we may quote a statement credited to Herbert Hoover: "Very few producers have the capacity for selling the United States as a whole, but we find many of them trying to do this. Much effort is lost upon some territories which, if properly studied, would fail to show possibilities sufficient to justify the expense of advertising and selling. A great many manufacturers undoubtedly would find that by limiting their efforts to more circumscribed areas and intensifying their sales activities in such areas, they would not only reduce their selling costs, but probably would produce a large volume of business."

In the case of one large producer, studies have indicated that any account less than \$600 a year cannot be handled except as a loss, and that nearly half of his accounts have been of this size or smaller. In another case, where a manufacturer was conducting national advertising into every town and hamlet at a tremendous cost, it was discovered that less than one thousand individual companies were large enough to utilize the product advertised.

These facts suggest the need which exists for concentrating sales effort to secure selected customers, in order to assure distribution of product to the important industries in the logical trading centers. Concentrated areas can be marketed at a profit. The sparse territories, comprising nearly 50 per cent of the 3,000-odd geographical counties, can only be traveled at a disproportionate cost. What in all common sense we should really do, is to determine what are the important trading areas for us;—and to see that we are represented in each of those areas by trade outlets that rank at the head of the list of those sources of supply recognized by the important consumers.

## 7. Fish Where the Fish Bite

Nature's geological forces have seen fit to wrap up her mineral gifts in small packages and to deliver each package in a queer place. But a man may seek out his spot, unearth his package there and unwrap it for himself. In Arizona he can extract his copper. In the Alleghenies he can mine his coal, or in Texas drill for his oil. Likewise, since the earth's crust is overdone



in some spots and soggy in others, we have our cattle ranches and our wheat belts.

Only in slightly less degree have the natural characteristics of certain localities prescribed what industries should congregate there. The foundryman squats near his coal and iron. The slaughterer usurps the corner of a great lake that had to be gotten around by all traffic headed toward an Eastern market. Like filings clinging for life at either one end, or the other, of a horse-shoe magnet, industries have arranged themselves in systematic order.

It all rests upon an obvious philosophy of common sense. Iron miners do not dig where there is no iron ore. The ranchers seek the open country where fodder is free on every hand. Anglers fish where fish bite. The sportsman after the big game uses a rifle and not a shot gun. It is a rule of life that a man must accommodate himself to his environment or he will not survive.

From these generalities we deduce an interesting corollary that is important in all our thinking. The people that live in a community determine its economic characteristics. This is so simple, to state, that it sounds foolish. But how many of us, for each separate community, have sized up just which industry ranks first, which one second, which one third? . . . And do we recognize that the given locality repels as well as attracts? Which industries are inconsequential? Doesn't the leopard have to change his spots as he moves from one jungle to the next?

It is stimulating to grasp the significance in the simplification possible because of these facts. Seventy-five per cent of the producing oil industry is in three states down Texas way, a compact area relatively. The oil capitol of the world is there. The salesmen who are the oil-conscious salesmen can get their best information at that place. Moreover, since the biggest proportion of oil in the United States is right there, it also becomes a fact that that region is dominated by the oil industry sales. When markets are analyzed along these lines, a manufacturer finds he can adopt a purposeful, selective approach to his customers. His gulf region manager becomes his oil specialist.

## 8. Let Ruts Help, Not Hinder

Human nature resists change. It certainly does like to jog along the same old groove and it greatly resents anybody or anything that tries to yank it out of a rut and put it on some other path. Sometimes we stay in ruts because we don't know we're in them. They become deep and we can't see over the ridges. Yet as long as we're in a rut we cannot pass out anyone else. It seems easier to go along accustomed lines of action than to change. And soon the ruts have become our fixed, unchangeable habits.

For our enlightenment William James, the eminent psychologist, elaborates upon the nature of habits from this angle: "We find ourselves automatically prompted to think, feel or do what we have been before accustomed

to think, feel or do, under like circumstances, without any consciously formed purpose, or anticipation of results. Habit soon brings it about that each event calls up its own appropriate successor without any alternative offering itself. Habit is thus the enormous fly-wheel of society, its most precious conservative agent. It alone is what keeps us all within the bounds of ordinance, and saves the children of fortune from the envious uprisings of the poor. It alone prevents the hardest and most repulsive walks of life from being deserted by those brought up to tread therein. It keeps the fisherman and the deck-hand at sea through the winter; it holds the miner in his darkness, and nails the countryman to his log cabin and his lonely farm through all the months of snow."

If habits have half the balance-wheel power attributed to them by William James, they may be counted upon by the business man as if they were a persisting force and plans may be matured accordingly. Indeed, in all the many phases of his production, marketing and administration, the business executive has great need for reliance upon fixed standards and normals that condense the experience of the past into handable yardsticks, acceptable to all concerned. For, by the use of standards and a reliance upon the inertia of continuing habits, he is at once relieved of petty details, and freed for broader usefulness.

### 9. Keep Yourself "In Line"

There also seems to be a "law of equilibrium." Economic forces tend to strike an equality or parity, the one with the other. This has been long exemplified in the historical "corn-hog ratio." Statistics show the price of a hog tends to be equivalent to the price of eleven bushels of corn. Similarly, over a period, one-dollar wheat will mean five-dollar flour. Departures tend to correct themselves back to the ratio that represents equilibrium.

Nor is this law limited to a parity of prices. If there be temporarily too much industrial building, for instance, it will penalize and restrict residential building. There is a tendency toward a balance of exchange between industries, so that they are "sharing and sharing alike." One group cannot long prosper at expense of another, and the greatest good to the public, as well as to the industry, results from an even balance between reasonable volume, reasonable prices and reasonable profits.

Equilibrium is also a vital principle in building the structure of an organization . . . the preservation of balance between so-called "productive" labor and so-called "overhead"; even between research for improving process efficiency and research for increasing marketing efficiency. Since every business tends to get out of balance, with respect to internal matters, or its relation to external conditions, we might caution due regard to the admonition to "keep in line."

Many of our most serious problems spring from over-production. When

the manufacturer's volume recedes he can hardly avoid the conclusion that he is suffering more than his competitor and that somebody is stealing his customers. That feeling of anxiety can be relieved principally with data. It is a matter of record that, in those industries where data can be accumulated accurately and frequently, so that each manufacturer can observe with considerable exactness what his relative position is in that industry, each will valiantly and honestly bear his share of the burden of curtailment in the hope of re-establishing equilibrium.

#### 10. Search Out the Lazy Dollars

This maxim stresses the fact that all the costs and expenses of any concern can be paid for only out of the sales dollars that customers will pay for the products of that concern. This implies that, out of each dollar actually gotten, only a certain number of cents can be allotted to pay the costs of a given activity of the business. If any department spends more than its allotted share of the total sales dollars, it thereby penalizes other departments or creates a loss.

The search for lazy dollars presumes that all activities must be proportioned according to sales revenues. In total—or by units—we cannot spend more than we get and still hope for profits. A complete lazy dollar analysis would break down the 100 per cent total into proportionate divisions and would allocate a certain number of cents allowable for each class of expenditure. Each class would include a homogeneous lot of items which, as a group, would be likely to react to the same economic causes. These several classes of activity can then be either justified or condemned according to the economic evidence for, or against them. Certain it is that the administrator knows he cannot pay out of pocket for costs or expenses any more cash than he may get from customers; and, if he does not keep expenses in line with income, the penalty will be reduced earnings and eventually reduced capacity for production.

When the search for lazy dollars is well organized, we then have a complete budgetary procedure, which begins with an estimate of sales dollar income. We set up such budgets, not to make records of fixed realities, but because of the reality that conditions can be regulated or changed. "To regulate" means to make regular, or orderly; or to "adjust by rule"; and that is just what the budget should do.

As a rule, any disbursement that exceeds its share of probable income, is held responsible for loss of profit and the excess disbursement must justify its existence or be eliminated. Every activity creating expenditure must be proportioned according to its ability to add to revenues or to reduce costs and thus contribute a share of net profits.

In the field of marketing, this principle is applied through a procedure we have come to call "sales budgeting." A sales budget is an estimate of the

sales that are to be, not an abstract calculation of what ought to be, nor what, sometime in the future, may be.

Therefore, estimates are built up synthetically by territories, each of which is in charge of a local manager. Each local manager's territorial estimate, by product lines and by total, is reviewed in turn by the regional manager, by the general sales manager, and by the central planning section of the president's office. As a part of the procedure, headquarters executives should take steps to readjust all sales efforts with a view to improving efficiency to the utmost.

Just as it was formerly appreciated that certain machines were best adapted to certain types of fabricating, and that other machines were adapted to other types, so analysis will discover that there are material differences in the values of territories, of salesmen and of customers. If a particular salesman is below par for lack of additional customers of the right sort, and if his present list of short-line customers cannot be induced to purchase and stock our full line, then, at least part of that salesman's efforts should be turned in another direction where his expense can bring back a profitable return. For there are only two ways to reduce selling costs. We may sell more volume at the same dollar cost; or, if we may not wisely expect more volume, we can sell that same volume at a lesser cost.

Through the periodical reviews afforded by sales budget procedures, keen management will see to it that policies will be changed, or a re-direction of effort planned, wherever the initial estimates show that inefficiencies are creeping in. After diagnosing the symptoms, it is but the next step to consult with the specialist of each locality, prescribe a suitable tonic and then confidently rely upon him to administer the curatives.

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In their earlier applications, scientific studies waited only for a willingness to perform, for materials were tangible and factors were largely within individual control. In the fields of administration and marketing, many of the factors are intangible and less can be done by the individual without co-operation of outside agencies. This, however, should spur us on to take first steps.

It is easy to preach and hard to practice. Still, we must listen to the preachers long enough to be set right in our aims and purposes. Then we must work out our own salvation in a practical way. The way out in business, is research and planning inside the organization and cooperation of outside agencies.



# THE MANAGEMENT INDEX

## Abstracts and News Items

### FINANCIAL MANAGEMENT

#### A Forecasting Index for Business

Four sets of statistical measurements which from the statistical point of view seem to have a bearing on the condition of business one year later have been selected and combined into a single forecasting index.

According to the accepted statistical tests the accuracy of the index is exceptional. The correlation between the forecasting curve and the actual business curve over a thirty-year span is shown to be .87. Omitting the year following the opening of the World War, which can scarcely be considered a fair test, the correlation is .91. By Bradford B. Smith. *Journal of the American Statistical Association*, June, 1931, p. 115:13.

#### Responsibility of Bank Directors

A bank's safety and progress, and the legality of its practices, depend very largely on the day-to-day work done by the officers, other executives, and clerical staff. But it is the directors who are responsible. In theory and in fact, the duties of the operating executives and personnel are delegated duties of the board. It necessarily follows then that it is incumbent upon the directors to be assured, through intelligent and faithful performance in their own function of direction and control, that the work which they have properly delegated to others is as well done as the standards and policies of the board must require.

Four basic duties of directors are: (1) To attend directors' meetings; (2) to select and maintain proper management personnel and provide modern records and

methods adequate to the needs of the bank; (3) to formulate policies governing the conduct of the bank's business and see that these policies are adhered to; (4) to conduct thorough examinations of the bank's affairs or direct that such examinations be conducted on behalf of the Board. *Ernst & Ernst*, 1931, 82 pages.

#### Overcoming Management Inertia

The title of this article might well be changed to "Putting Your Stuff Across." The proper personnel relationships necessary for the successful use of cost ideas present the hardest job the cost accountant has to fill. This article gives some advice along these lines and illustrates, by example, how one industrial accountant has utilized this advice in a practical way.

"Who causes management inertia?" and "What the cost accountant can do to overcome this inertia" are among the questions answered. By Robert N. Wallis. *N. A. C. A. Bulletin*, June 15, 1931, Section 1, p. 1683:13.

#### Cost Accounting and Budget Making

A budgetary system has been defined as a systematic method of gathering information from the past and present, and of formulating plans for the future on this basis, and of reporting subsequently how these plans have been carried out. The application and use of this method of planning and recording give what is called budgetary control. Various illustrations are given of ways of presenting the accounts of a company in convenient form for budgeting. Methods of comparing

budgeted expenditures with actual cost are also described. With the development of standard costs and the utilization of the exception method of accounting it is possible to arrive at costs much more quickly than formerly. By Floyd F. Hovey. *Bulletin of the Taylor Society*, June, 1931, p. 97:7.

### Corporate Finance a Factor in Depression

Nearly every factor bearing on the present depression has received due recognition. But the aberrations in corporate financing which preceded it have probably not been given due weight as aggravating influences.

The years 1928 and 1929 were marked not only by a great flotation of security issues; they were marked by the employment of common stock rather than bonds as the major means of financing.

There were reasons for this change in the trend of corporate financing. There are also consequences which are now being felt. Money rates rose through 1928 and 1929 until the market break in October. High money rates with the attendant low level of bond prices are unfavorable for bond financing—the operation is costly. Conditions were highly favorable, however, for the sale of stocks. The public was "stock minded"; the common stock as a long term investment medium as well as a golden key to quickly garnered fortunes was in its heyday.

In addition to the foregoing reasons encouraging stock financing, corporation managements welcomed the opportunity presented to improve capital structures by the retirement of bond issues and to provide for new construction by a type of security which would not entail fixed charges. There was one other, and more sinister, influence—the very high call money rate. Here was a tempting invitation to raise funds for other than business uses. The level of prices permitted the sale of stocks at costs of less than 5 per cent for the money for any well-sponsored issue. The funds obtained at less than 5

per cent could be loaned to return 8, 9 and 10 per cent as the call loan rate advanced. The heavy flotations of new securities contributed directly to the making of a crisis through the piling of credit on credit, and it is noteworthy that the years preceding other major crises of the past, 1907-1908 and 1919-1920, have also witnessed an increase in the use of common stocks for financing at the expense of bonds. The effects, however, were not confined to the crisis year. They are still at work. *Business Conditions Weekly*. Alexander Hamilton Institute, June 6, 1931, p. 1:2.

### The Aftermath of Stock Financing

The ill effects of an excessive use of stocks for financing may be summarized as: (1) a direct effect on purchasing power through the suspension or reduction of dividends; (2) impairment of credit so that the corporation is ill fitted to benefit from conditions favorable for bond financing; (3) a tendency to over-capitalization necessitating a squeezing out of water and (4) the creation of the necessity for digesting the new securities through the long and trying process of paying off loans incurred to purchase them.

In the midst of one depression it is rather premature to consider the hoped-for lessons of that era as they affect the future. It is to be hoped that bond financing in general and short term financing in periods of high interest rates in particular will be restored to their pristine place. The recollection of 1929-1930, with corporations rich in cash and overloaded with securities which cannot be retired, may contribute to a realization of that hope. *Business Conditions Weekly*, Alexander Hamilton Institute, June 6, 1931, p. 2:2.

### Selling and Administrative Expense Analysis as a Basis for Sales Control and Cost Reduction

The creation of standards is the goal of selling and administrative expense analysis, standards that will be expressed as quite definite sales quotas assigned to salesmen,

districts, cities and towns, by types of customers, by products and by seasons in those localities that can most advantageously absorb the commodities to be sold. Standards that will be expressive of selling expenses, as they should be, for definitely planned and routed salesmen's trips, for selected advertising media, and for administrative outlays that represent a measure of normal distribution services rendered by management. Any expenditures beyond these norms or standards would then be considered as losses and as profit withdrawals, and not as legitimate increments

of cost recoverable through sales; or, in some instances, they might be properly carried over as deferred charges.

After several years of operation of a business in accordance with standards by means of budgetary control, distribution activities and distribution costs will become almost entirely susceptible to scheduled, predetermined management. Combined with a similar effective control over production, an era of profit assurance in business may be confidently expected. By William B. Castenholz. *The Accounting Review*, June, 1931, p. 125:6.

## Insurance

### How State Insurance Commissioners Have Ruled on Auto Fleets

Charles T. Warner, Superintendent of Insurance of Ohio, asked recently to make a ruling on the practice of including privately owned automobiles of employees of a common employer in a fleet policy, called attention to a decision made two years ago. At that time the Commissioner held that the inclusion of individually owned private automobiles in a fleet coverage for rating purposes was a discrimination against other owners of the same type of automobiles. Exception was made, however, in the case of contingent liability protection for employers whose policy is to require employees to furnish their own cars for company business. In the memorandum published recently Commissioner Warner included quotations of similar opinions given out in other states, viz., Minnesota, Wisconsin, Virginia, Tennessee, Alabama and South Carolina. *The Spectator*, June 18, 1931, p. 36:1.

### More Effective Bank Insurance

The American Bankers' Association has announced a revised bank burglary and robbery policy offered June 1, 1931. Coverage has been extended to include damage or destruction to fixtures and equipment whether or not it results from an attack upon an insured safe. The ex-

clusion clause operating when any employee of the bank was implicated in the burglary or robbery either as a principal or an accomplice has been removed. The valuation of stolen securities for settlement purposes is taken as of the close of the business day next preceding the discovery of loss rather than as of the time of settlement. Numerous other changes have also been made. *American Bankers' Association Journal*, May, 1931, p. 921:2.

### Insurance Rate Regulation

For many years states have been attempting to regulate fire insurance rates by following a principle of non-discrimination. This is done by permitting carriers to employ one agency to make rates for all and when these rates have been filed with the Insurance Commissioner and approved by him, all insurance companies are required to observe the filed rates. Dean Young B. Smith of Columbia University Law School has criticized this practice, believing that it results in marked injustice both to the buyer and seller of fire protection.

The rates filed by the rating organizations are as accurate a measure of the physical hazard as can be made with present knowledge but they do not measure accurately the hazards which the carriers actually assume, as those hazards are influenced by factors growing out of human nature, such as the character of ownership

of the risk and the kind of community in which it is located. It is doubtful whether this condition can be corrected by the use of mathematical formulae. Exercise of sound human judgment would come nearest

to effecting the needed reform but insurance commissioners who are purely administrative officials are not permitted to exercise the necessary judgment. *Journal of Commerce*, June 9, 1931.

## OFFICE MANAGEMENT

### Organization: Job Analysis, Employment, Pay, Tests

#### How Centralizing Office Work Saved Us \$900,000

A detailed account of how the Standard Accident Insurance Company installed a centralized system for the various service functions of the office. During the five-year period covering the operation of the plan, the company has increased its volume of business 35 per cent, measured by the number of items entered, at the same time effecting a 5 per cent reduction in personnel. By L. H. Van Ness. *System*, July, 1931, p. 21:3.

#### Examine Before You Hire

A thorough physical examination conducted previous to hiring an employee makes possible lower turnover, fewer accidents, better work. Of great importance is the improvement that comes in the health of the employees as a result of corrective examination and advice. The A. E. Staley Manufacturing Co. has a well defined plan for an entrance physical examination. Classification of the physical condition of the employee is made with relation to the job held or to be held. The company has a personnel card system on which everything from police records to chattel mortgages is recorded for the individual man. If a man is found obviously unfit, this fact is entered on the personnel card indicated by a black flag at the right corner of the card, and when layoffs come the cooperation of the man's foreman with the personnel department eases this individual from the plant. This institution in the Staley organization has proved highly successful.

Poor applicants are fewer, good applicants are more numerous, and while the general trend of the times might affect the total number applying, physical examinations certainly were responsible for the much improved average class of applicants now received. By W. Lynn Davis. *Factory and Industrial Management*, June, 1931, p. 987:2.

#### Measuring the Work of an Insurance Office

In the Aetna Casualty and Surety Company office work has been measured principally for the purpose of setting bonus rates. The clerk is charged with the minutes she spends on bonus work, and is credited with the work she turns out, translated into minutes. The comparison of these two items gives a percentage of efficiency which determines whether or not she is to receive a bonus in addition to her salary, and if so, how much. At the beginning, time studies must be made on such a basis that record keeping shall be fair, accurate and not prohibitively costly. Obviously, the satisfactory unit for measurement is one most often repeated uniformly which readily lends itself to counting and recording. The time study itself frequently reveals the unit most susceptible to measurement. So the problem of finding the right unit and the timing of the units are an evolution, not two projects to be planned and carried out independently.

Aetna's method of approach, in introducing time study into a new division, is usually the studying of the simpler clerical



jobs, where it is felt efforts will be most effective and where the division head can see most quickly the practical demonstration of its value. The installations in the tabulating units of the Hollerith division and in one filing unit of the department are described. By Marie Newman. *Quarterly Bulletin National Office Management Association*, April, 1931, p. 15:4.

#### The Measurement of Office Work in a Financial House

In order to meet the various fluctuations—often sudden and violent—which are part of the business of the Henry L.

Doherty Company, allowance has to be made for rapid increase in volume of clerical work. Therefore this organization, in its measurement work, is interested in how much a clerk can produce under the highest pressure for a short period of time rather than in how many bills per hour a billing typist can prepare maintaining an even rate of production over a period of months. Mr. Drake outlines how general principles of measurement have been applied in meeting these unique conditions. By Richard E. Drake. *Quarterly Bulletin National Office Management Association*, April, 1931, p. 20:7.

#### Records: Forms, Charts, Cards, Files, Statistics

##### Business Tackles Order Handling

Because more companies have learned about scientific management, because, instead of trying to sidestep handling small orders, some are trying to handle them profitably, and because when business drops off, there is increased interest in all non-productive costs, progressive companies have gone far toward lowering the cost of handling orders. They have: 1. Eliminated every step not needed from the route over which orders travel; 2. Considered everything that happens in connection with an order (including ledger entries, collections, shipping, and sales statistics) as part of one routine; 3. Installed modern equipment; 4. Revised the forms; 5. Applied scientific office management, particularly job analysis and standardization, effective control and direct flow of work, and wage incentive plans. Each of these is discussed and illustrated by examples taken from re-

cent investigations. By Norman C. Firth. *System*, July, 1931, p. 13:4.

##### Keeping the Files Ready for Action

Every filing system should be so organized that once the file clerk knows what she is required to find, she knows exactly where to find it, and quickly. An organization troubled with poor finding service is advised to make a thorough investigation. Overcrowded file drawers, broken follow-up blocks, missing drawer pulls, drawers in poor repair, overcrowded folders and missing guide cards are some of the causes for inefficiency. Frequent inspection of the conditions of the files, equipment, methods and operation is recommended and a list of questions covering these points given to facilitate the determining of weak links in the chain of efficient filing. By Fred E. Kunkel. *The Office Economist*, June-July, 1931, p. 10:2.

#### Training and Education: Schools, Libraries, Employee Publications

##### The Ingredients of a Successful Dealer Magazine

The Electric Refrigeration Department of General Electric Company publishes a sales magazine called "On the Top" which

owes its marked success to the following factors: A consistent editorial policy; an understanding of the audience reached by the magazine; short well-written articles; profuseness of illustrations; regularity of

issue; attractive appearance; capitalization of readers' interest by the publication of news and letters received from readers, and the general interest obtained by a combination of text and pictures. By Don Gridley. *Printers' Ink*, June 4, 1931, p. 96:3.

### **The Mechanics of Group Training**

The mechanical set-up of the group training program conducted by the Penn Mutual Life Insurance Company includes a course lasting six weeks. There are three lectures each morning. The afternoons are spent in the field. The conference method

of instruction is used. On the walls around the conference room are bulletins and boards designed to show the progress the class is making. A Sales Experience Board gives a visual picture, by means of different colored thumb tacks, of each man's daily work, how many prospects he has, how many sales talks he has made, how many applications he has secured, etc.

Two succeeding articles will discuss the content of a group training course and the follow-up (supervision) of the group. By Philip O. Works. *Manager's Magazine*, May-June, 1931, p. 4:2.

## **Benefit Systems and Incentives: Pensions, Profit Sharing, Suggestions, Vacations, Stock Ownership**

### **Clerical Incentives**

Rapidly rising clerical costs make necessary a more complete control of clerical expense. This article includes a discussion of group vs. individual incentives, essential steps in setting a task, including the supervisor's compensation in the arrangement, drafting standard instructions and recording savings. In the average well-managed clerical organization where the staff is paid on a salary or hourly basis it is usually possible to reduce clerical expense from 10 per cent to 20 per cent by the proper application of incentives. *Brochure by Bigelow, Kent, Willard & Co.*, June, 1931.

### **The Pension of the Public Service Employee**

Ever since the ruling of the Interstate Commerce Commission about the charging of pension reserves the discussion of the railway pension problem has been steady, vigorous and often interesting. There has been considerable argument about the desirability of setting up reserves for currently accruing pensions without regard to the pensions already being paid. A plan is outlined which would accomplish at least in a measure the results looked for by railway management and by the employees. The portion of the pension payable by the

railway is made definitely contractual and the plan conforms to all the present rulings of the Interstate Commerce Commission. By Ingalls Kimball. *Public Utilities Fortnightly*, May 28, 1931, p. 660:9.

### **Lambert, Gillette Head, Will Receive Bonus, No Salary**

Gerard B. Lambert, newly elected president of the Gillette Safety Razor Company, will serve as president without compensation until the company's net profit in one year amounts to \$5 a share on the common stock. Then the company is to give him 20,000 shares. If the profit is not less than \$6, the company is to issue him an additional 20,000 shares. Another 20,000 shares are to be reserved, of which up to 10,000 may be issued to him and the rest to other executives, officers and employees as may be determined by the executive committee.

This plan was approved and a contract drawn at a recent meeting of the stockholders of the Gillette Company at Boston. The stockholders may decide in the future whether or not to pay Mr. Lambert a salary.

It was also voted to pay the regular dividend of \$1.25 on the preferred stock, payable on August 1.

The Gillette Company has recently increased its payroll about 30 per cent and bought in more than \$2,000,000 of its \$20,000,000 debenture issue. *Advertising & Selling*, June 24, 1931, p. 34:1.

#### Employees' Participation and Investment Plan of the Kansas City Public Service Co.

Increased compensation, amounting to 25 per cent of the net earnings, is now available to the employees of the Kansas City (Mo.) Public Service Co., under the employees' participation and investment plan made effective by the board of directors as of January 1, 1931. Participations are de-

termined quarterly; and are paid within 30 days thereafter, to each employee of one continuous year's service or more, in the proportion that his own earnings bear to the total payroll of eligible employees for the three-months' period. When an employee acquires certificates equalling the amount of a share of stock or a bond he may exchange them and thereafter hold the securities so obtained or sell them as he pleases. Unexchanged certificates are salable only to another employee and upon the approval of the trustees of the plan.

Net income for purposes of the plan is defined as gross revenue plus non-operating income minus all operating expenses. *Industrial Relations*, June, 1931, p. 186.

## PRODUCTION MANAGEMENT

### Industrial Economics: *Labor and Capital, Legislation, Wage Theory, Immigration*

#### Stabilization of Employment

The primary conditions upon which the most satisfactory structure is built in any industry are conditions of work, hours of work and compensation. The President of General Electric urges the close cooperation of management with the employee in the various plans aiming at stabilization. By Gerard Swope. *N.E.L.A. Bulletin*, June, 1931, p. 405:2.

#### The Pittsburgh Plan for Unemployment

Interesting features of this unemployment relief work are the speed with which it became effective and the fact that the work provided comprised actual public projects for which appropriations were obtainable for materials and supervision while the labor bill was met by the relief fund. Over half the total amount (\$1,300,000) of the fund came from industry through self-assessment, a large amount from employed workers on the basis of a day's wages, and only about \$375,000 was collected in individual contributions. Administrative control of the various charitable agencies and

information and research bureaus was secured through the continued service of a group of business executives and that leadership explains the effectiveness of the effort. By Francis D. Tyson. *The Survey*, July 15, 1931, p. 386:3.

#### Wages: The Trend and the Debate Over Pay Reduction

Three questions raised by the controversy over wages are: To what extent are employers committed to the pre-depression scale of wages by their pledge to the President in 1929? To what extent have wages actually been maintained? Would the country gain or lose by a general reduction of wages at present? It appears that the 22 employers who attended the President's conference have maintained wage scales at the level then existing. However, a summary of wage reductions in 16 cities tells another story. Prominent industrialists are to be found on both sides of the question. As corporate profits declined 45 per cent last year and were below any year since 1921, there is some senti-

ment that labor should accommodate itself accordingly. The opposing argument is that between 1921 and 1929 the return to capital greatly exceeded that to labor. By Charles Merz. *New York Times*, June 7, 1931, xx3.

### Social Obligations of Business, Industry and Labor

If we are to avoid a future repetition of the distressing experiences through which the nation is passing some remedy must be found and something constructive must be done. The big transcendent question is employment, systematized and stabilized. Work security, better industrial planning, stabilization, technological unemployment and such collateral questions relating to an improved economic order should be subjects for consideration and action. The President of the American Federation of Labor says the existing unemployment situation must be interpreted as a challenge to industry, business, management and government and that the security of private enterprise, private initiative, private ownership and the existing social order will very largely depend upon the way and manner in which this challenge is met. By William Green. *Address before the Harvard Business School Club*, April 21, 1931. 14 pages.

### The End of an Epoch

Professor Smith says that we are swinging away from the *laissez faire* of 1776, the hand forge and the frontier farm, as one problem after another demands it. "We are at the end of an epoch, the epoch of free and unrestricted competition. Our system has failed. Six million unemployed prove it. We need a new system. The need for a system of industrial control is urgent."

We must look forward to, and work for, planned and controlled production that provides adequate return to capital and also high wages and regular employment to labor. In some respects Germany has led the way. Contrast the situation in the Ger-

man soft-coal field under the cartel and the conditions in the West Virginia soft-coal field under the chaos of free competition. President Hoover's approval of the agreement limiting and controlling the amount of oil to be imported and the export limitation agreement of the sugar growers of exporting countries are cited as interesting and suggestive experiments in the field of industrial control. Professor Smith believes the main task that faces private capitalism if it is to escape being swallowed by state operation of industry is to persuade the American voter that it would be a good thing to permit the formation of many industrial groups, each controlling the production of a commodity or group of commodities and working under some sort of public supervision, of which the Interstate Commerce Commission's control of the railways is a type. By J. Russell Smith. *The Survey Graphic*, July 1, 1931, p. 333:4.

### Economics in Politics

The characteristics of "Capitalism" are freedom of individual initiative and the right of private property. Have these fundamentals of our civilization broken down or have they any responsibility for the present situation? Are we prepared to consider the abandonment of either? Does the present situation constitute a "breakdown" of the economic order under which all the progress of the past has been made?

In a striking analysis of the entire present business situation with its possible political effects the National City Bank draws attention to the fact that the current discussion of the existing depression is largely based on the assumption that the business world is in one of the downward swings of the "business cycle" to which it is said our industrial system is subject from time to time. In the opinion of the National City Bank a more adequate explanation is to be found in the enormous derangement of industry, trade and finance the world over caused by the great war. The conditions out of which the present situation has developed could not possibly have



arisen except as results of the war. This affirmation is made with special reference to the vast inflation of credit, the effects upon wages and prices, the destruction and displacement of capital, the stimulus to agricultural production outside of Europe, the burden of new indebtedness and the new trade barriers and rivalries, all contributing to the disruption of former relations which is the outstanding feature of the present situation.

The industrial organization is primarily for peace-time activities; it was forcibly diverted to war-time activities with the results described. The "breakdown" was one in governmental relations, not business relations except as the latter have been disturbed by the interference of war. It does not follow that a remedy for the existing disorder in business is to be found in a further extension of governmental authority.

As for any kind of voluntary control exercised by business itself, certainly it will have to be of a very tenuous character so long as present legislation remains as it is. Undoubtedly the tendency in the business world is to a closer degree of cooperation, but manifestly that must be a gradual development rather than a general and planned reorganization. *National City Bank Letter*, June, 1931, p. 91:5.

#### The Major Problem Created by the Machine Age

Technological unemployment is the major problem created by the machine age, and if not checked by intelligent action will continue to grow in volume and in evil effects. In other words, the productivity of each worker has been so increased that there is not enough work to keep all workers employed. Two factors for reducing unemployment are readily applicable and must be used carefully and deliberately. First, every effort must be applied to the development of new products especially of those which will fall into the classification of necessities and displace least our present products. Second, there is inevitable a shortening of the number of working hours

per week, with less than a corresponding reduction in wages. Of these two factors, the former has already played its greatest part and cannot be relied upon for any decisive future effect. The latter has been used only to a minor extent in the past but will be the really effective agent of the future. By Arthur Andersen. *N.A.C.A. Bulletin*, June 1, 1931, Section 1, p. 1613:14.

#### Wages of Women in 13 States

Payroll figures covering about 101,000 white women and 6,100 negro women have been assembled, analyzed and correlated with industry, hours, and other industrial factors and with age, nativity and experience of the employees in Rhode Island, New Jersey, Ohio, Delaware, Oklahoma, Missouri, Georgia, Tennessee, Arkansas, Kentucky, South Carolina, Alabama and Mississippi. By Mary Elizabeth Pidgeon. *U. S. Department of Labor*. 211 pages.

#### Educating Labor for Leisure

It is often said that the acid test of a civilization lies in the use that is made of leisure. The application of that test to present civilization reveals the stamp of mechanization on the methods of relief sought by the laboring masses in their leisure hours. A unification of purpose in adult education is urged—to reclaim human values from the machine's domination. Labor must be taught to regulate our industries. By regulation or control is not necessarily meant ownership; and any advocacy of communism, socialism or any other "ism" is disclaimed. The recommendation proposes for Labor, through comprehension and power, to manage national economic policies—an education for social control of industry—presuming more than vocational training. Labor must be educated to consider work as a means for obtaining leisure rather than using up its life to make a living. The worker must know his industry in every detail, its economic relationship to industrial society and its influence on social welfare—moreover the cultural subjects must necessarily be

equal in importance to the economic. Thus will the worker's life and his living coincide for the first time. To thus free Labor and reverse its place as an instrument of the machine will require the courageous and skillful ministrations of an

intelligent leadership motivated by the single purpose of educating Labor for leisure through social comprehension and economic control. By Jacob Berg. *Journal of Adult Education*, June, 1931, p. 278:4.

### **Training and Education: Schools, Libraries, Apprenticeship, Employee Publications, Bulletin Boards**

#### **Training Supervisors in Management**

The American Rolling Mill Company's program of training "foremen-managers" includes no classroom work; all the activities are carried on in the environment of the mill. Each supervisor is the trainer of his immediate group, no outside instructors being employed. The mechanics of the program are simple. The personnel staff prepares weekly outlines applying the principles of management to the subject being studied at the time. Each new subject is introduced to the supervisory force and advisory committeemen at the beginning of the month by the works manager, the accomplishments of the preceding month being discussed at the same meeting. In weekly meetings of department superin-

tendents the fundamentals are applied to departmental problems. The department superintendent follows up with a weekly meeting of his foremen where the outlines still further are localized to departmental problems. The numerous types of product defect are charged back to the department in which they originate. The supervisors scan these defect reports carefully. This provides one check-up on results of the training course.

The president of the company points out that the time the management devotes to such plans brings definite returns in greater production and better quality of product without additional capital investment. By Charles R. Hook. *Executives Service Bulletin*, June, 1931, p. 3:2.

### **Plant: Location, Lighting, Heating, Ventilation**

#### **Paint as Maintenance, Paint as Production**

The application of a wage incentive to maintenance painting includes a survey of all jobs to be done, the reduction of these jobs to their elements, and the development of the best method of performing each one. Charts are made covering all routine operations. Examples are given from the practice of the Westinghouse and Procter and Gamble Companies. A description of the psychological value of the color schemes at the new Simonds Saw plant and E. T. Wright & Co. is also given. Painting the machines in bright colors has these advantages: 1. Elimination of eye strain. Color contrasts the products against the machine, resulting in finer and

more uniform work without unduly taxing the eyesight. 2. Elimination of fatigue and nervous tension. 3. Reduction of accident rate. 4. Improved morale. Better attitude toward work. Better personal appearance. 5. Increased production. By T. J. Maloney. *Maintenance Engineering*. April, 1931, p. 162:7.

#### **Scientific Temperature Control Makes for Efficiency**

Better production is possible through a knowledge of the effect of heat, humidity and air in motion upon the individual in factory and office. A discussion of the results of several experiments made on men and women of various ages, weights, physical types and temperaments to discover

what happens to the bodily processes when the body is exposed to varying combinations of heat, humidity and air motion. By Uthai Vincent Wilcox. *Trained Men*. Summer, 1931, p. 55:3.

### Preventive Maintenance

Westinghouse Electric & Manufacturing Company believes that maintenance inspection is necessary if a company would reduce or maintain at a low rate the manu-

facturing cost of products inasmuch as it accomplishes standard installations, lowers costs of installations, prevents the breaking down of equipment, eliminates hazards, promotes the morale of the employees and insures continuity of service. The Superintendent, Buildings, Light, Heat and Power Department, tells of the maintenance work done in that organization and of its attendant time studies and incentive plans. By August Heckman. *Pacific Factory*, June, 1931, p. 11:3.

### Shop Methods: *Industrial Engineering, Standardization, Waste, Rate Setting, Time and Motion Study*

#### An Organized Shipping Room

In an analysis of operations preceding the setting of bonus standards in a shipping room the following nine points were considered: general type and range in size and bulk of items shipped; the condition in which stock was received from the finishing processes; the analysis and charting of the internal clerical routine of shipping; the analysis of the work of each member of the shipping crew; check-up of the coordination of shipping routine with the requirements of sales, traffic and service sections; analysis of stock layouts and bin and floor designations with an eye to saving time and errors; analysis of the method of checking and verifying the accuracy of shipments; analysis of type of shipments—export, freight and rail direct to customer, carload to branches, etc., revealing some of the variations that had to be recognized

in making layouts and establishing output standards gauging the seasonal fluctuations in sales. In this company the result of the study was a reduction of an original shipping crew of 41 men to 14, and an improvement in the accuracy and promptness of shipment.

The objective of a bonus plan is to develop a plan that will evaluate the effort requirements of various types of product and shipments with only a nominal amount of clerical effort. When the bonus standards were finally established the entire department was controlled and compensation calculated in two hours per week of one clerk's time. Tables illustrate how rates were set up for stock picking of standard shipping containers, and the major classifications and the bonus time standards that apply. By R. H. Rositzke. *Factory and Industrial Management*, July, 1931, p. 61:2.

### Benefit Systems and Incentives: *Pensions, Vacations, Profit Sharing, Wage Plans, Suggestions, Stock Ownership*

#### A Management Incentive Plan for Foremen

A monthly prize awarded to foremen for keeping within their budget has netted the Studebaker Corporation savings of \$500,000 in a year. The foreman is provided with a monthly allowance for each of the controllable items of expense for which he

is responsible. Monthly prizes of \$100, \$60 and \$40 are offered for the three men with the lowest percentages of their respective budgets. The assistant foremen in the prize winning departments share an amount of \$150 or \$100, depending upon the group. Included in the budgets are all non-productive labor in the department, such as job-setters, inspectors, truckers and

sweepers, clerks, tool crib men, janitors and porters, all scrap, operating supplies, tools, etc. The monthly budget is obtained by averaging the actual expenditures for the four lowest preceding six months. Prizes are awarded at monthly foremen's

meetings and at the same time a large chart is exhibited showing the relative standing in the contest of each department in the factory by groups. By J. H. Greene. *The Foreman and Industrial Executive*, June, 1931, p. 8:1.

## Research and Experiment

### Research in Industry

The gradually growing appreciation of the possibilities latent in the application of scientific methods to industry, both for the purpose of checking tradition and of improving upon the results obtainable by traditional methods, is bringing about a very great, although almost imperceptible, change in the entire industrial situation. Once having applied the searchlight of research to industrial problems it becomes evident that this tool is capable of showing the way for ever-increasing improvement.

Research is not essentially and solely a laboratory process applicable only to inert materials. It is equally applicable to human beings and to all of their activities. To be effective in industry research must be common property, the common method throughout the organization. Each foreman and each superintendent and so on up to the top of the ladder must be insistent upon operation on the basis of determined fact as against opinion, belief, tradition or whatnot. It is necessary to train all hands in the use of research; that is, in the men-

tal attitude that begets operation on the basis of fact. By C. F. Hirshfeld. *Mechanical Engineering*, July, 1931, p. 498:4.

### Wanted 1,000 New Products to Revive 1,000 Old Markets

The vice-president in charge of research, General Motors, says that industry must be revitalized through the development of new products and through invigorating the organizations themselves. Persistence and tact are necessary to get agreement on any change, particularly when a committee must be sold. By Charles F. Kettering. *Sales Management*, June 27, 1931, p. 502:3.

### We Looked for Economy and Found a New Process

In attempting to reduce space requirements, Darling & Company found it possible, by a more exact control of temperature and humidity, to manufacture glue on a continuous-process basis. At the same time the product was made more salable. By Thomas K. Lowry. *Factory and Industrial Management*, July, 1931, p. 35:3.

## MARKETING MANAGEMENT

### Marketing Policies That Keep Our Factory Humming Overtime

The president of the Lehman Company of America (furniture), says that the policies that have helped them weather the depression are: Never let the dealer overstock; periodically give the dealer something new to feature; endeavor to keep prices in line with the market; shun the "close out"; style the product to the mar-

ket; use the stylist in selling. By William C. Lehman. *Sales Management*, July 4, 1931, p. 12:2.

### Sales Audit Gives Steel Founders New Slant on Selling

Seventy-two per cent of the purchasing agents who were asked said that quality was their first consideration in buying steel castings. Typical individual criticisms of



salesmen's faults were: Lack of technical knowledge, inability to quote without consulting home office, taking too much of buyer's time, knocking competitors rather than stressing quality of own product. By Granville P. Rogers. *Sales Management*, May 30, 1931, p. 344:1.

#### **Making and Selling Just Enough—at a Profit**

Accurate sales planning is the foundation of economical control of production. Just how far sales forecasting has progressed beyond the guesses which used to pass for estimates, is indicated in this article by Professor Elder. He describes the methods and principles used in forecasting the sales of anti-freeze mixture, and says they are being used with remarkable success in a wide variety of industries to put production and financing on a solid and accurate basis. By Robert F. Elder. *Factory and Industrial Management*, July, 1931, p. 64:2.

#### **Operating a Fleet of Salesmen's Cars**

The practice of the Automobile Division of General Foods Sales Co. is based on records covering 70,000,000 miles of salesmen's mileage and represents nearly 20 years' experience. The company owns the cars. These records are so kept as to show where the rise and fall of expense takes place. It is desirable to have such records maintained and supervised by someone with an understanding not only of the frailties of the equipment but of the salesmen driving the cars. By C. L. Jones. *Printers' Ink Monthly*, July, 1931, p. 35:3.

#### **Making the Dealer an Adviser**

A report on the experiences of nine organizations that have established dealer advisory councils as a means of strengthening their distributor relations includes a description of the organization of these councils, the extent of their duties and powers, the kinds of questions considered, the pay of committees, types of business using councils and opinions as to their

usefulness. Experiences of the following companies are given: Knox Hat, Geo. E. Keith (Walkover Shoes), Devoe & Reynolds, Armstrong Cork, L. C. Smith, Celotex, Red & White Chain Stores and there is also some data from a large meat packer and the automobile industry. *Report of the Policy Holders Service Bureau, Metropolitan Life Insurance Company*. 22 pages.

#### **Adjusting Sales Expense to Present Conditions**

Four major plans which have helped to effect substantial sales economies are: Realignment of sales territories, readjusting operating expenses, decreasing automobile allowances and changing operating methods and concentration of sales effort on profitable buyers and territories. Some firms have eliminated inefficient representatives and have given additional territory to those best equipped to handle it. There appears to be a trend toward company-owned automobiles. *Report No. 350. The Dartnell Corporation*.

#### **Mill Supplies Market Determination Plan**

A guide to specialized selling. Its application calls for the use of four basic charts: Distributors' Market Analysis Chart, Product Application Chart (for manufacturers), Product Application Chart (for industrial users) and Distributors' Recapitulation Chart. Each is explained and illustrated. The plan has one outstanding objective—that of increasing economic value of the services of the industrial distributor, through the use of practical methods of determining what to sell, how to sell, and where to sell. Prepared by *Mill Supplies*. 14 pages.

#### **Fourteen Ways of Covering Sales Territories More Profitably**

The following 14 plans were gathered from a group of 100 sales executives in a broad range of industries and they were devised to meet the current situation:

1. Division of prospects and customers

into various classes and arranging salesmen's calls according to this classification.

2. Rearrangement of territory—making territories larger or smaller.

3. Planning for the more intensive coverage of outlying, and therefore usually neglected, territories.

4. Organization of more effective field supervision of salesmen through establishment of local supervisors, district managers, etc.

5. Inducing salesmen to reside in the center of their territories.

6. Organizing the home office so that there is more effective collaboration between the outside and inside staffs.

7. Improved statistical knowledge of ter-

ritories, including such matters as trading areas, purchases of customers, reports on prospects, etc.

8. Replacements to strengthen personnel.

9. Reduction of salesmen's expense through effective control systems.

10. Providing salesmen with cars or with allowance with which to operate cars.

11. Getting home office executives to spend more time on the road.

12. Elimination of unnecessary detail work by salesmen, including simplification of salesmen's report systems.

13. More scientific routing of salesmen.

14. New methods of salesmen's compensation. By E. B. Weiss. *Printers' Ink*, June 25, 1931, p. 3:4.

### Sales Promotion: Letters, House Organs, Advertising

#### A Digest of Direct-Mail Fundamentals

A discussion of various angles of direct-mail advertising, the extent to which it is used, its field, its frequency, its results, etc. By Stuart Webb. *Postage and the Mailbag*, June, 1931, p. 438:4.

#### Package Inserts—Their Three Major Functions

The three major functions of the insert are: Cross advertising, that is, advertising other products of the manufacturer, insuring proper use, and carrying the sale beyond the sale or keeping the product well sold after the consumer has made the purchase. Examples of each of these are given. The insert may tie in with the national advertising and may supplement information on the package itself. By C. B. Larrabee. *Printers' Ink Monthly*, July, 1931, p. 45:3.

#### Over \$300,000 Extra Business Through Practical Direct-Mail Control

How Loeser's (department store) increased volume at a low advertising cost through a program of planned direct-mail. By Lester Brozman. *Postage and the Mailbag*, June, 1931, p. 446:1.

#### Driving Forces in the Sales Plan

The importance of building a sales plan around some central driving force such as a human want is illustrated by descriptions of the programs which launched Ambrosia, Tydol and other products. One weakness more common than any other in sales planning is the subjective type of mind in a position of great responsibility. There must be a constant action and reaction between facts and creative thinking. An analytical outline composed of several charts suggests the scope of studies necessary for comprehensive sales planning. By Stuart DuBois Cowan. *Bulletin of the Taylor Society*, June, 1931, p. 108:20.

#### The Place of Direct-Mail in the Marketing Program

A review of all advertising mediums and a suggestion that the normally proper place of direct-mail advertising in the marketing program can be determined by a classification of goods and services on the basis of the buying motives underlying their purchase, a classification of media on the basis of their capacity for intensive selling, and a consideration of firms with respect to their resources and the geographical extent

of their markets. By Lawrence C. Lockley. *Postage and the Mailbag*, June, 1931, p. 464:4.

### Five Million Dollars Worth of Sales Ideas

The story of five years' progress of Wheatsworth, Inc., includes a vigorous merchandising program and unique advertising, stressing nutritive values as well as quality. Last year the company increased its business 12 per cent. By James True. *Sales Management*, June 20, 1931, p. 459:3.

## Buying, Receiving, Storing, Shipping

### Chain Buying Practices

Current buying practices of the large grocery chains have come under scrutiny in the past few weeks, as the manufacturers are completing a questionnaire on the subject for the Federal Trade Commission.

It is a generally accepted trade practice on the part of these manufacturers to make allowances to the large chains for advertising. This may take the form of either using the trade name of the manufactured product in the advertising copy of the chain store or allowing a certain amount of space in the stores themselves to be allotted to the exclusive display of this product. Manufacturers of food products generally consider both methods as good advertising and are willing to pay for the privilege. The chains generally have been very willing to accept the extra fee for pushing the particular brand, and the practice has become so general that it has resulted in a regular schedule of prices for services rendered.

This practice has, in fact, become so general in the chain field that the chain promotion departments have come to expect some sort of assistance of this kind in any merchandising drive in which they may be engaged. A manufacturer may be confronted with a decline in the sale of his product with a mounting inventory and consequent shrinkage in profits. If used

### Best Sales Letters

A collection of letters selected because of percentage of returns and sales and adaptability to other lines of business. This group will also be a standard against which to check results from previous sales letters, as in many cases percentages of returns are given. There are several letters that were used to advantage in follow-up series. Several employed novelty features to emphasize the message, another was effective in bringing old customers back to the fold. *File: 36. Dartnell Sales Data.*

to chain practices he will seek a promotion of this sort for his goods and in all probability will move a huge tonnage. Price, of course, is a strong consideration in this type of business, and both chains and manufacturers will freely concede that there is no possibility for success unless levels are very low.

Another current practice which is being used, especially in the case of introducing new merchandise into the market is the so-called practice of "free deals." The manufacturer or the distributor of a new product anxious to secure for it a wide circulation offers it to a chain. The chain store agrees to push the article and figures that its organization will be confronted by somewhat of a problem in so doing. In consequence the chain reasons that if it accepts the merchandise for nothing, possibly at the rate of a case per store in a large city, it is entitled to the whole profit on the basis of the extra effort put into the promotion of the new article by the chain organization.

These and many other practices which have come in the past few years to be accepted as part and parcel of the business have suddenly been thrown into high relief by the Federal Trade Commission questionnaire. The grocery manufacturers themselves want to be very sure of the relationship of these practices to the generally accepted Federal Trade Commission

code for grocery trade practices (which is now up before the industry for acceptance). Their anxiety is evidenced by the fact that they have turned over their completed

questionnaires in many cases to legal counsel before offering them to the Federal Trade Commission.—*Journal of Commerce*, June 18, 1931.

## Retailing

### Fitting Men for Management

The Merchandise Manager of Kline Brothers Company tells how that organization trains men for the management of its 42 department stores and several leased ready-to-wear and millinery departments. Each new assistant is thought of as a manager in the making and not merely as a subordinate employee who may, in the distant future, qualify for managerial duties. Obviously this view plays an important part in the examination of applicants.

Training begins as soon as the man is engaged. After a few weeks spent in the company's office studying the merchandise manual—the complete story of every department in the stores—familiarizing himself with the forms used in the stores, etc., acquiring the chain store angle, he is assigned to a store for which this two weeks contact with him has convinced the management he is fitted. He is routed through each department receiving a thorough course in general store-keeping, as well as in department management. He is watched carefully and rated on ability, judgment, tact, memory, loyalty, etc. He is then transferred to a store in a different type of community to broaden his training. Here he goes through a similar course. Considerable responsibility is put on the store manager. Each manager's efficiency is rated on the basis of his ability to train others as well as on the profit record of his store. There is no set length of time for this training, the assistant staying in

each department until he is thoroughly grounded in its work. By Lawrence W. Hirsch. *Chain Store Age* (General Merchandise Edition), July, 1931, p. 6:2.

### The Time Has Come to Expand

The General Manager of Snyder's Hat Stores describes their expansion program which is being undertaken after a thorough market analysis. These stores are now going into smaller cities and new districts will be smaller than existing ones. Statistical information has been based on such things as rate of growth of population, number of telephones, bank clearings, buying habits of the city and its environs, etc. In studying desirable locations it has been found better to watch the traffic rather than merely clock it, in order that the habits of the people passing may be observed. A busy corner is not necessarily a profitable corner. The advantage of a percentage lease is pointed out, and the rent clause of one of these leases is given. These leases run from 10 to 21 years. By Donald C. Blair. *Chain Store Age*, July, 1931, p. 29:2.

### Seasonal Shops Help Our Permanent Stores

The president of Peck and Peck describes the operation of their seasonal shops and says that credit losses are no greater in them than in the permanent ones. By A. Wells Peck. *Chain Store Age*, June, 1931, p. 24:3.

## Books Received

**Marketanalyse und Industrielle Absatzorganisation.** (Translated to be Market Analysis and Industrial Sales Organization.) By Dr. J. Kurt Herzfeld. C. Boysen, Pub., Hamburg, Ger., 1930. 102 pp.

**C. P. A. Review.** (Questions and Problems in Auditing and in Accounting Theory and Practice.) By Sidney G. Winter. Prentice-Hall, Inc., New York, 1930. 556 pages. \$6.00.



**The Secretary's Guide to Correct Modern Usage.** By C. O. Sylvester Mawson. Thomas Y. Crowell Co., New York, 1923 and 1926. 213 pages. \$2.00.

**Public Utilities.** A Survey of the Extent of Instruction in the Field of Public Utilities in Colleges and Universities; the Industry's Demand for College Graduates; the Character of the Opportunities in the Industry Open to College Men; and the Willingness and Ability of the Utilities to Cooperate with Colleges and Universities in the Training

of Men for the Industry and in the Study of Public Utility Problems. By the Educational Members of the Cooperation with Educational Institutions Committee of the N.E.L.A. National Electric Light Association, New York, 1929. 154 pages.

**Foreign Trade.** By Grover G. Huebner and Roland L. Kramer. Appleton, New York, 1930. 805 pages. \$5.00.

**Japan's Economic Position.** By John E. Orchard. McGraw-Hill Book Co., New York, 1930. 504 pages. \$5.00.

## Survey of Books for Executives

**Business Adrift.** By Wallace Brett Donham. McGraw-Hill Book Co., New York, 1931. 165 pages. \$2.50.

There has already been more controversy over this book than over any other business book in some time. Those interested in foreign trade have been particularly critical and the opponents of the present tariff find no comfort or hope in it.

The Introduction, a paper by Professor Alfred N. Whitehead, is entitled "On Foresight." Foresight depends upon understanding but in practical affairs it is a habit. Social life is founded on routine, but there are limits to routine and it is for the discernment of these limits and for the provision of the consequent action that foresight is acquired. It is no longer true that one generation will live substantially amid the conditions governing the lives of its fathers, consequently to-day's training must prepare individuals to face a novelty of conditions.

The business mind of the future will continue to depend on routine but it needs the extra endowment of a philosophic power of understanding the complex flux of the varieties of human societies. The habit of transforming observation of qualitative changes into quantitative estimates should be a characteristic of business mentality. The cycles of trade depression warn us that business relations are infected with the disease of shortsightedness.

Dean Donham's own contribution embraces a section on "Foresight and Its Elements," another on "Business Adrift" and a third on "A Plan for American Business." He emphasizes the need for our learning general principles which will enable us to deal more effectively with constant change in ways which will give us a more stable basis for society and its continuous progress. In this book he explores the possibility that we may fix many variables for limited periods of time hoping thereby that the complicated flux of things may be brought to some greater extent within the boundaries of rational thought. The only hope for western civilization centers in the ability and leadership of American business and on its recognition of the fields in which government action is necessary to secure sound results. For the next business generation the critical point must be stability. Change is now so rapid that it threatens to upset the routine and stability which is the essential basis of continued progress.

With this in view he discusses the problem, "How can we as business men, within the areas for which we are responsible, best meet the needs of the American people, most nearly approximate supplying their wants, maintain profits, face the Russian challenge, and at the same time aid Europe and contribute most to, or disturb least, the cause of International Peace."

Dean Donham's technique for handling this problem is the essence of the book but if you want the answer read the book and join the controversy.

W. J. DONALD.

### **Racial Factors in American Industry.**

By Herman Feldman. Harper Bros., New York, 1931. 318 pages. \$4.00.

The foreigner always has been forced to occupy the lowest rung on the ladder, and his progress upward has not been made easy by those who have preceded him. This book presents a critical analysis of the Racial Factors in American Industry. It is based in part upon a study made by The Inquiry, under the direction of Bruno Lascker. A less able writer than Dr. Feldman would have impaired the value of his contribution by becoming emotionally wrought up about his subject. Instead, he has presented a carefully documented, interestingly written discussion of an important topic. The result is not only a source book of data of tremendous immediate importance, but it is an illuminating discussion that will aid the reader in evaluating the conflicting issues that are significant factors in American industry today.

Raymond Fosdick has contributed a brilliant introduction to Professor Feldman's book. In four short pages he has packed a wealth of facts that will stimulate the reader to search further for answers to the questions that are raised. In sharply etched sentences Fosdick indicates the change in our attitude toward foreigners, from 1841 when the United States was termed "the asylum of the oppressed of every nation" until the present when the annual quota of immigrants has been reduced to 153,000 persons. He reminds the reader of this book that we never have been tolerant of the foreigners who came to our shores. A hundred years ago we burned Negro churches in Philadelphia, and destroyed quarantine hospitals on Staten Island. When it was to our economic advantage to allow foreigners to enter the country, we made entrance easy. When it was no longer to our economic

advantage, we passed exclusion acts. Today there are 11,000,000 Negroes, 2,000,000 Mexicans, 175,000 Japanese and Chinese, 55,000 Filipinos and 18,000,000 foreigners who came to this country subsequent to 1900. They are all lively members of our social and industrial fabric. The problem for the future is to integrate these varied racial groups into a common program.

The first half of this book presents the facts in the case. Over a third of this portion of the book is taken up with a consideration of the Negro and his problems. The next two chapters discuss the plight of the Chinese, Japanese, and Filipinos; the Mexicans and Indians. A searching chapter is devoted to "The United States of Immigrants." In this one chapter Professor Feldman has condensed into 48 pages the essential statistics, and other pertinent facts, for a comprehensive consideration of the various racial groups that are present in the United States. From 1820 until 1929 more than 37½ million people entered the United States. Each wave of immigration was looked down upon by the members of the groups that preceded. The newcomer always has borne the brunt of the hard work, low pay and social disfavor. As Professor Feldman has stated, "each one has served his turn at the bottom." There has been an economic reason for this disparagement of the newly arrived immigrant. Each group that had gained a foothold—no matter how recently, or how insecurely—felt that the more recently arrived immigrant group would under-bid and under-cut the labor market.

The Jew has remained a special problem because he remains a foreigner even to the third and fourth generation. Because of his religion, he remains in a group with common interests and customs, while other foreign groups tend to abandon the ways of their homeland, and to lose their identity in the prevailing American fashion. It is to be regretted that Professor Feldman did not devote more space to the specific problems of this group. The book is somewhat over-balanced in its consideration of the problems of the Negro.

The second half of this book deals with methods of eliminating the conditions of industrial prejudice that now exist. Here a genuinely constructive program, based upon educational procedures, is developed. So far as the industrial situation is concerned, changes in methods of dealing with racial groups can only follow changes in attitude on the part of executives. Professor Feldman indicates that at present many executives are motivated by impressions they received as children. Too often these impressions have not been subjected to critical analysis. He suggests attention to problems of racial adjustment as part of the community program. Educational institutions, religious organizations, philanthropic foundations, labor organizations, and the government can lay a foundation of fact to serve as the basis for decisions when racial questions are involved.

The foreigner will be adjusted to the purposes of American life only when attitudes are based upon facts rather than upon prejudices. Industrial executives who formulate policies, employment managers charged with the selection of men, and foremen who represent management to the body of workers, are the key men who can do most in solving racial problems in American industry.

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**Bibliography of Management Literature**  
(Up to January, 1931). Compiled by R. M. Berg. American Society of Mechanical Engineers, New York, 1931. 142 pages.

Those who have occasion to refer to literature on various phases of management will find this bibliography well selected and extremely useful. When compared with the first edition, published in 1927, this classification reveals an increasing specialization in subject matter and a growing interest in certain branches of management. An author index is a helpful feature of the present list.

**Personnel Relations in Department Stores.** Prepared by the Industrial Relations Section, Princeton University, Princeton, N. J., 1931. 58 pages.

The preliminary draft of this study includes such subjects as: Employment, training, methods of wage payment, protection against workers' risks, savings and loan plans and employee group activities, and is the result of a survey of current procedure in fifty leading stores.

**The Full-Fashioned Hosiery Worker.**

By George W. Taylor. University of Pennsylvania Press, Philadelphia, 1931. 237 pages. \$3.00.

The changing economic status of the full-fashioned hosiery worker is described by means of a discussion of the nature of the industry, its collective bargaining, earnings of full time workers and the relation of annual earnings to age, tenure, and type of machine operated. The book is well illustrated by charts and tables.

**The Modern Worker.** By Mildred J. Wiese and Ruth Reticker. Macmillan Co., New York, 1930. 610 pages.

This book is written primarily for students in high schools and junior colleges, and fills a long felt want. It is interesting to the more mature reader to find out the type of material that is given to young students, but even if he starts reading the book with this only in mind, he will soon find himself getting much instruction serviceable to him. For some readers, doubtless, the book may serve as a clear and detailed review and summary of what they already know. To most it will add much factual material.

In this time of economic upheaval and world-wide unemployment, it is especially necessary that young and old shall understand the set-up of an industrial civilization, and the technics by which it functions, successfully or otherwise. The book presents a short look backward, a long look around and a short look ahead. It includes admirable definitions and detailed examples and cases, as well as an orderly, well pro-

portioned and balanced account of industrial development and its effect upon the human element.

The illustrations are excellent, both the photographs and charts, and make it possible to visualize the conditions the text describes.

The style is clear and simple, the tone fair and judicial, the attitude detached enough to be non-controversial and non-partisan. The form is typical of the "text book type," with ample footnotes that indicate wide and careful research and problems at the end of each chapter, to help the student to more extended reading, to evaluation, and to working out his own judgments.

The book deserves a large group of readers, who will use it as a text book first and as a reference book later. It is to be hoped that its "school book" form will not prevent the appreciation of its inherent spontaneity and vigor. The writers have worked in industry as well as looked at and criticized it. They feel warmly as well as think clearly, and "The Modern Worker" deserves a place on the shelf of everyone interested in industry, next to "Robots and Men" and the other accepted books that bring one nearer to the American worker and his problems.

LILLIAN M. GILBRETH, *President,*  
*Gilbreth, Inc.*

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**Wall Street and Lombard Street.** By Francis W. Hirst. Macmillan, New York, 1931. 180 pages. \$2.00.

While the business and professional fraternity of United States have lost much of the serenity of isolation and the complacency that accompanies the feeling of the everlasting security of these United States from foreign invasion by trade or otherwise, nevertheless this book by Francis W. Hirst, former Editor of the London Economist, is a work of genuine significance because it lends to the existing international problems of United States a mature foreign view. Mr. Hirst was in New York during the stock exchange collapse in October and November, 1929, and followed closely the development of that crisis

in the security market. His interpretation of the Wall Street collapse, embodied in the first section of the book, is therefore first-hand.

Needless to say, his narration of events is done with the striking casualness and fluent charm that characterize much of the writing of English bankers and business men. While the first half of the volume contains nothing that is factually new, yet it gives such an engaging description of the collapse of Wall Street that no one interested in the financial aspects of the last depression should miss it.

The second half of the book deals with the sequel of the Wall Street collapse, namely, its effect upon Lombard Street and upon trade. "It seems clear from this necessarily imperfect survey that the great Wall Street collapse, striking a world financially crippled by the Great War and staggering under a load of reparations, war debts and war taxation, was not merely an occasion but a cause of the depression that swept over trade," says Mr. Hirst. For the current world-wide depression Mr. Hirst suggests two classes of remedies: First, remedies which countries can apply without foreign assistance; and, second, remedies which can be made effective only by cooperation between intelligent governments. In the first category he mentions "public economy and retrenchment of all wasteful and unnecessary expenditures; secondly, fiscal reform, where customs and excise duties, or any other regulations, are obstructing freedom of trade." Of remedies in the second category, Mr. Hirst suggests specifically cooperation between intelligent governments on "reparations, war debts, and gold reserves." By the time this review reaches print it is hoped that United States again will have demonstrated its intelligent foresight and courageous initiative in leading the European nations out of the economic morass which reparations, war debts, and gold reserves have developed.

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